



GOVERNMENT  
PRICES  
OVERSIGHT  
COMMISSION

**Metro Pricing Policies Investigation 2003**

**Invitation For Submissions**

**January 2003**

Enquiries in relation to the matters raised  
in this Paper and on any other matters  
relevant to the Metro Pricing Policies  
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# OVERVIEW

The Commission has been required by the Government to investigate the pricing policies of Metro Tasmania Pty Ltd (Metro) for its bus services in Hobart, Launceston, Burnie and Ulverstone. The Commission is required to produce a Final Report, including recommendations for maximum prices to be charged by Metro over the next three years, by 1 June 2003.

The major issues on which the Commission seeks comment are listed below:

## **Effectiveness of Metro's Service Delivery**

The Commission is required to consider the effectiveness of the role and services delivered by Metro in terms of the Government's objectives as represented by the Shareholder Expectations statement, and to assess the effectiveness and appropriateness of the Community Service Activity (CSA) Agreement in achieving this outcome. The Government expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
  - students travelling to and from school; and
  - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.

The CSA Agreement is described in the Metro Submission.

**Comments are sought on the effectiveness of the services delivered by Metro in terms of meeting the Government's objectives, and the effectiveness and appropriateness of the CSA Agreement in achieving this outcome.**

## **CSA Agreement and Incentives**

Metro currently obtains about 70 per cent of its revenues from the CSA payments, approximately 25 per cent from fares and the remainder from other business activities. The CSA payment is a base funding amount which is not varied by the level of patronage.

Metro states in its submission that it receives a form of per passenger ‘incentive payment’ through its ability to retain fares revenues. This is different from the per passenger ‘incentive payment’ received by the private sector bus industry through the retention of passenger fares plus the payment of ‘top-ups’ for students and concession passengers.

**The Commission invites comments on the effectiveness of the incentive mechanisms in the current CSA Agreement between the Government and Metro in achieving the Government’s objectives as represented by the Shareholder Expectations statement.**

### **Return on Capital/Profit Versus “Break Even” Funding**

In 2001-02, Metro received \$7.065 million in fares and \$19.35 million in payments from Government under the CSA Agreement. The current regime of CSA payments to Metro purely reflects Metro’s break-even revenue needs and does not allow for a commercial return on the assets employed in the business.

**Comments are sought on whether the CSA payments to Metro should allow for a commercial return as an alternative to the current regime of purely reflecting Metro’s break-even revenue needs.**

### **Integration of Public Transport Systems**

Through its Shareholder Expectations statement, the Government expects Metro to, among other things, effectively integrate with other public transport services, including taxis, where sufficient customer needs exist.

**Comments are sought on the issue of integrating Metro services with other public transport services.**

### **Student Concession Fares**

As noted in the Metro Investigation conducted in 2000, there is a marked anomaly between the fares paid by students on Metro services and those paid by students travelling with private bus operators, whether on school bus contract services or as concession travellers on route services.

**Comments are sought on the student concession fares charged by Metro in the context of fares charged to students using other bus services.**

### **Metro Index**

In the Metro Investigation conducted in 2000, the Commission developed the Metro Index (Index) as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. The Commission is required to review the adequacy of the Index in reflecting Metro's input costs for the next 3 to 5 years. The Index is described in the Metro Submission.

**Comments are sought on the Metro Index and related issues raised in Metro's submission.**

### **Metro Submission**

To assist with the Investigation, Metro has provided the Commission with a comprehensive preliminary submission. In addition to those issues outlined above, the Commission welcomes comments on any matters or issues arising from the Terms of Reference and Metro's submission.



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# INVITATION FOR SUBMISSIONS

The Commission has been required by the Government to investigate the pricing policies of Metro Tasmania Pty Ltd (Metro) for its bus services in Hobart, Launceston, Burnie and Ulverstone. The Commission has also been asked to review the effectiveness of the current Community Service Activity Agreement (CSA Agreement) between the Government and Metro and the adequacy of the Metro Index in reflecting Metro's costs. The Commission is required to produce a Final Report, including recommendations for maximum prices to be charged by Metro over the next three years, by 1 June 2003.

To assist with the Investigation, Metro tendered a preliminary submission (Metro Submission) in January 2003 discussing the major issues that are of concern to Metro. Based on the Terms of Reference for the Investigation and drawing from the Metro Submission, this brief Paper outlines the major issues on which the Commission seeks comment. The Commission encourages public participation in the Metro Investigation and invites submissions on any of the matters raised in this Paper, the Metro Submission and on any aspect of the Terms of Reference.

Submissions should be made to the Commission by 21 February 2003 preferably by email to:

[office@gpoc.tas.gov.au](mailto:office@gpoc.tas.gov.au)

or by mail to:

**Government Prices Oversight Commission  
GPO Box 770, Hobart Tas 7001**

This Paper, the Terms of Reference and the Metro Submission are published on the Commission's website: <http://www.gpoc.tas.gov.au/investig.htm>. Submissions will also be published on the Commission's website unless the contributor requests that all or part of the submission is to be treated as confidential.

On the basis of its research, the submissions received and consultation with interested parties, the Commission will prepare a Draft Report with proposed recommendations, which will be released for further comment in early April 2003. After taking into account the responses to its Draft Report, the Commission will publish its recommendations in a Final Report by 1 June 2003.

# 1 INTRODUCTION

## 1.1 Terms of Reference

The Government Prices Oversight Commission (the Commission) has been required by the Treasurer to conduct an investigation into the pricing policies of Metro Tasmania Pty Ltd (Metro). The Commission is required to produce a Final Report by 1 June 2003 in which it will make recommendations on the maximum prices to be charged by Metro for passenger bus services for the next three years.

The Terms of Reference for the Investigation are reproduced in Appendix 1. Essentially, the Commission is required to:

...investigate the pricing policies associated with the current provision of scheduled route services by Metro in the metropolitan areas of the Greater Hobart area, Launceston and Burnie and the town of Ulverstone. The Commission should also consider the impact on Metro's costs that would arise from any request for changes to the current route services...

In investigating the pricing policies, the Commission is to consider:

- the efficiency with which public transport services are currently delivered by Metro; and
- the effectiveness of the current arrangements (Community Service Activity Agreement) between Metro and the Government, including the incentive mechanisms, for purchasing services, having regard to the cost of delivery and service level;

and to review the adequacies of the Metro Index<sup>1</sup> in reflecting Metro's input costs.

## 1.2 Matters to be taken into Account

Apart from the specific issues raised in the Terms of Reference, section 31 of the *Government Prices Oversight Act 1995* specifies certain matters that the Commission must take into account in any investigation. These matters include:

- the cost of supplying or providing the monopoly service;

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<sup>1</sup> The Metro Index serves as the basis for allowing the adjustments to Metro's adult fares under the terms of the Pricing Order and quarterly adjustments of Metro's Community Service Activity payments by the Government.

- any interstate benchmarks for prices, costs, revenues and returns on assets;
- the need to protect consumers from the adverse effects of the exercise of monopoly power;
- the need for the monopoly provider to be financially viable;
- the need for a reasonable return to the State, including the payments of dividends;
- any community service obligations; and
- the quality of the supply of the monopoly service.

### 1.3 Metro Submission to the Investigation

To assist with the Investigation, Metro has provided the Commission with a comprehensive preliminary submission (Metro Submission). The submission addresses the issues raised within the Terms of Reference for the Investigation, and is laid out as follows<sup>2</sup>:

Sections 2 to 4 provide general background information about Metro, its regulatory environment, its operations and its financial performance.

Section 5 focuses on Metro fares policies, whilst section 6 outlines briefly the matters relating to the efficiency of service delivery. Section 7 identifies a range of additional costs faced by Metro beyond normal service provision that need to be taken into account when considering the total cost of service provision.

Section 8 focuses on the effectiveness of Metro operations, taking into account the shareholder expectations.

Section 9 looks at the effectiveness of purchasing arrangements in terms of encouraging the provider (Metro) to deliver to the purchaser (Government) what they really want. Section 9 also looks at the arrangements for adjusting the CSA Payment in light of service changes.

Section 10 focuses on the Metro Index and its adequacy in reflecting Metro's costs.

Section 11 attempts to summarise the main conclusions that can be drawn from the material presented in this preliminary submission.

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<sup>2</sup> Metro Submission, Section 1.2.

## **1.4 Previous Metro Investigations**

This Investigation will be the third Metro pricing policy investigation conducted by the Commission. The first Metro investigation was conducted in 1996 and the second in 2000. Reports and related submissions for these two investigations may be obtained from the Commission's website: [www.gpoc.tas.gov.au](http://www.gpoc.tas.gov.au).

The Commission established for this Investigation comprises Andrew Reeves (Commissioner) and Glenn Appleyard (Assistant Commissioner).

## 2 ISSUES FOR SUBMISSION

This section provides a brief outline of the major issues on which the Commission seeks comment.

### 2.1 Effectiveness of Metro's Service Delivery

The Government purchases urban public transport services from Metro through its CSA Agreement. In 2001-02, Metro received \$7.065 million in fares and approximate \$19.35 million in payments from Government under the CSA Agreement.

The Commission is required to consider the effectiveness of the role and services delivered by Metro in terms of the Government's objectives as represented by the Shareholder Expectations statement<sup>3</sup>, and to assess the effectiveness and appropriateness of the CSA Agreement in achieving this outcome.

The Shareholder Expectations statement states that the Government, through its Shareholder Ministers, expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
  - students travelling to and from school; and
  - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.

Sections 8 and 9 of the Metro Submission provide a detailed discussion of the CSA Agreement and the effectiveness of Metro services in fulfilling the Shareholder Expectations.

**The Commission invites comments on the effectiveness of the services delivered by Metro in terms of the Government's objectives and the effectiveness and appropriateness of the CSA Agreement in achieving this outcome.**

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<sup>3</sup> Appendix 1, Attachment A1 of Terms of Reference.

## 2.2 CSA Agreement and Incentives

In assessing the effectiveness of the CSA Agreement between the Government and Metro in terms of the Government's objectives, the Commission is required to review the incentive mechanisms that are built in the CSA Agreement.

Metro currently receives about 70 per cent of its funding from the CSA payment, approximately 25 per cent from fares and the remainder from other business activities.<sup>4</sup> The CSA payment is a base funding amount which is not varied by the level of patronage. Metro notes in its submission that Department of Infrastructure, Energy and Resources (DIER) has very limited capacity to become involved in the detailed planning of services, but sees its role as one of providing the overall strategic direction and making decisions where significant changes to the CSA payment would result.<sup>5</sup> In such circumstances, Metro observes that the CSA Agreement also has a potential role to:<sup>6</sup>

- provide incentives to encourage the outcomes the Government really wants without the need for interventionist actions by the Department; and
- provide disincentives to discourage the outcomes that Government doesn't want, again without the need for interventionist actions by the Department.

Metro states that it receives a form of per passenger 'incentive payment' through its ability to retain fares revenues.<sup>7</sup> This is different from the per passenger 'incentive payment' received by the private sector bus industry through the retention of passenger fares plus the payment of 'top-ups' for students and concession passengers.

The background and structure of the CSA Agreement between the Government and Metro and a number of possible incentive and disincentive mechanisms are discussed in Section 9 of the Metro Submission.

<p><b>The Commission invites comments on the effectiveness of the incentive mechanisms in the current CSA Agreement between the Government and Metro in achieving the Government's objectives as represented by the Shareholder Expectations statement.</b></p>
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<sup>4</sup> Metro Submission, Section 9.2.2.

<sup>5</sup> Metro Submission, Section 9.1.

<sup>6</sup> Metro Submission, Section 9.1.

<sup>7</sup> Metro Submission, Section 9.2.2.

## 2.3 Return on Capital/Profit Versus “Break Even” Funding

The CSA payments to Metro are sufficient to bridge the gap between fare-box revenue and Metro’s costs. Metro is of the view that CSA payments should adequately compensate Metro for the full costs of operating the service and allow Metro to make a profit. In its submission, Metro states that:

‘Desirably the CSA Payment should be calculated to provide Metro with sufficient revenues to provide shareholders with a commercial return on the equity that has been invested in the company. However, with the CSA Payment being calculated so that revenues received from all sources are just sufficient to meet operating costs and capital depreciation only, Metro is not able to generate sufficient revenue to provide a commercial return and nor is it able to generate the revenues required to properly invest in capital replacement or invest in business expansion. The Auditor-General noted in his 2002 review of GBEs and SOC’s that Metro was unable to generate a commercial return due to its method of funding.

It is Metro’s view that the contract for the provision of services (CSA) with government should adequately compensate Metro for the full costs of operating the service, which in all normal commercial environments would incorporate a return on equity. Despite this view being repeatedly expressed, Metro has been unable to effect changes to the contract payment to support a commercial return...’

The structure of CSA payments to Metro and Metro’s view on this matter are discussed in Sections 4 and 9 of the Metro Submission.

**Comments are sought on whether the CSA payments to Metro should allow for a commercial return as an alternative to the current regime of purely reflecting Metro’s break-even revenue needs.**

## 2.4 Integration of Public Transport Systems

As expressed in the Shareholder Expectations statement, the Government expects Metro to, among other things, ‘effectively integrate with other public transport services, including taxis, where sufficient customer needs exist’.<sup>8</sup>

Metro notes in Section 8.8 of its submission that primary responsibility for ensuring that the public transport system appears as an integrated whole to the travelling

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<sup>8</sup> Appendix 1, Attachment A1 of Terms of Reference.

public rests with the DIER.<sup>9</sup> Metro states that it is identifying opportunities to improve things in this area through such actions as:<sup>10</sup>

- Working with the Glenorchy Council and the Taxi industry to revise the use of bus stops with the Glenorchy bus mall after hours so that the after-hours taxi rank can be located within the bus station area.
- An agreement with Tassie-Link / TigerLine to enable passengers on the new “Spirit” services to buy vouchers that can then be traded for Metro day tickets when passengers disembark in Burnie, Launceston or Hobart.
- Participating in the development of the new Launceston Transit centre providing an interface between urban and regional bus services. This will enable opportunities to be identified to improve the level of integration.

Metro also states that it endeavours to focus on providing effective integration within its own timetable to enable the more important cross-town service links to take place, desirably without changing buses.

Section 8.8 of the Metro Submission addresses the issue of integration of Metro services with other public transport services.

**The Commission invites comments on the issue of integrating Metro services with other public transport services.**

## 2.5 Student Concession Fares

In the Metro Investigation conducted in 2000, the Commission noted that there was a marked anomaly in fares charged to Metro student travellers and students travelling with private operators.<sup>11</sup> The key issue is the lack of consistency between the fares paid by students on Metro services and those paid by students travelling with private bus operators, whether on school bus contract services or as concession travellers on route services.

In the 2000 Final Report, the Commission stated that<sup>12</sup>:

The Government provides subsidies through public (Metro) and private sector bus operators to students for travel on ordinary route services or special student-only services to enable travel at significantly below the commercial fare. The

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<sup>9</sup> Metro Submission, Section 8.8.

<sup>10</sup> Metro Submission, Section 8.8.

<sup>11</sup> *Investigation of Metro Pricing Policies – Final Report 2000*, p73.

<sup>12</sup> *Investigation of Metro Pricing Policies – Final Report 2000*, pp 70-72.



subsidy represents the difference between the reduced fare and the relevant commercial child or adult fare. The level of subsidy provided or, alternatively, the level of contribution required from a student varies depending on whether the student is travelling on a private service or a Metro service and where the service is operated.

The level of student contribution required is:

- for students travelling on a private route service which is in an area not serviced by Metro, a fare of \$0.30 per trip;
- for students travelling on a private route service which is in an area serviced by Metro, a fare of \$0.70 per trip; and
- for students travelling on Metro services, the Metro rate — \$1.20 for a trip, or \$0.96 per trip for travel on a '10 trip' ticket.

For students travelling from a rural area and transferring from a fare-paying private service (where the student fare is 30 cents) to a Metro service, operators are able to claim the difference from the Department of Infrastructure, Energy and Resources, ie the difference between the 30 cents and the Metro fare of 96 cents.

Students travelling from rural areas on a private fare-paying bus (fare of 30 cents) who transfer to a private fare-paying bus (where the student fare would normally be 70 cents in urban areas) are given a free pass to cover the transfer to the second leg of their journey.

The Commission observed that the anomaly was apparent when the implications were considered:<sup>13</sup>

For example, a student may travel from Margate to Hobart (a distance of approximately 20 km) on a service provided by Hobart Coaches (a Metro subsidiary company) for a fare of \$0.30, while a student may be required to pay \$1.20 for travel of less than 2 km on Metro services.

The anomaly in student concession fares still exists. Government's current policy on student concession fares is also discussed in Sections 2.4 and 5.4 of the Metro Submission.

**Comments are sought on the student concession fares charged by Metro in the context of fares charged to students using other bus services.**

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<sup>13</sup> *Investigation of Metro Pricing Policies – Final Report 2000*, p73.

## 2.6 Metro Index

In the Metro Investigation conducted in 2000, the Commission developed the Metro Index<sup>14</sup> (Index) as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. The DIER also adopted the Index as the basis for adjusting Metro's CSA payments. As part of this Investigation, the Commission is required to review the adequacy of the Index in reflecting Metro's input costs for the next 3 to 5 years.

The Index comprises the following sub-indices for Metro's input costs:

Cost Component	Index	Weighting %
Diesel Fuel	Based on actual contract costs of diesel fuel	10.0
Labour	Based on appropriate ABS average weekly earnings plus appropriate loading for on costs and overtime	56.0
Bus Capital (depreciation), Parts and Maintenance	GST adjusted ABS Transport Equipment Index	23.0
Other (eg non-bus capital, other operating costs etc)	GST adjusted CPI	11.0
<b>Total</b>		<b>100.0</b>

In constructing the Index in the Metro Investigation conducted in 2000, the Commission chose, where possible, endogenous indices. The Index was designed to reflect Metro's cost structure but still provides incentive to achieve productivity in areas where Metro has significant control.

One significant issue that arose in the development of the Index in 2000 was the potential impact of GST on the sub-indices. The Commission recognised that adjustments made at the time might not fully remove the impact of GST from the sub-indices but considered the overall impact was not significant given the relative weighting of each component and the likely materiality of the potential over-statement of each of these indices.<sup>15</sup> The Commission also recognised the need for Metro and DIER to work together to ensure that Metro is neither disadvantaged nor receiving any advantage from the application of the Index.

In its submission to the current Investigation, Metro raises a number of issues concerning the components of the Index, specific aspects of the Pricing Order in calculating the Index and the effects of GST on its costs. These issues are discussed in detail in Section 10 of the Metro Submission.

<sup>14</sup> The Index was formulated in consultation with Metro and DIER in the 2000 Metro Pricing Investigation.

<sup>15</sup> *Investigation of Metro Pricing Policies – Final Report 2000*, p49.

**The Commission invites comments on the Metro Index and related issues raised in Metro's submission.**

## **2.7 Other Issues Arisen from Terms of Reference and the Metro Submission**

In addition to those issues outlined above, the Commission welcomes comments on any matters or issues arising from the Terms of Reference and the Metro Submission.



# APPENDIX 1 - TERMS OF REFERENCE

## **TERMS OF REFERENCE FOR THE INVESTIGATION BY THE GOVERNMENT PRICES OVERSIGHT COMMISSION INTO THE EFFICIENT DELIVERY AND PRICING OF SERVICES PROVIDED BY METRO TASMANIA PTY LTD.**

Terms of Reference are outlined below for the investigation to be conducted by the Government Prices Oversight Commission ("the Commission") into the pricing policies of Metro Tasmania Pty Ltd ("Metro") and their appropriateness by comparison to the pricing policies of other urban public transport service providers.

These Terms of Reference address each of the issues outlined in section 25 of the Government Prices Oversight Act 1995 ("the Act").

### **The Functions and Other Activities of Metro**

The principal function of Metro is to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice (section 5 Metro Tasmania Act 1997).

The primary activity of Metro is to provide urban public transport services within designated areas within the greater Hobart area, Launceston, Ulverstone and Burnie as specified in their Community Service Activity Agreement with the State (which runs to 30 June 2004). The Agreement also states the fares policies that are to be applied and requires that Metro operate in a pro-active manner to promote and develop services consistent with the provisions in the Agreement.

### ***Services to be Investigated, Metro Pricing Policies and Incentives For Serving Passengers***

The Commission is to investigate the pricing policies associated with the provision of the current scheduled route services by Metro in the designated metropolitan areas of the greater Hobart area, Launceston and Burnie and the town of Ulverstone. The Commission should also consider the impact on Metro's costs that would arise from any request for changes to the current route services.

Metro's fares policy is specified within the Community Service Activity Agreement between the Government and Metro. Metro obtains approximately 25 per cent of its total revenues from passenger fares, the remainder of its revenue being provided by the Government under this Agreement.

The Commission should review the appropriateness of Metro's pricing policies and draw conclusions from comparisons with the urban public transport pricing policies of other operators, both within Tasmania and elsewhere in Australia. Any proposals to modify Metro's pricing and fares policies should include an assessment of the financial and patronage implications.

### ***The Efficiency and Effectiveness With Which Public Transport Services Are Delivered By Metro***

In investigating the pricing policies of Metro, the Commission is to consider, where relevant:

- the efficiency with which public transport services are currently delivered by Metro; and
- the effectiveness of the current arrangements between Metro and the Government, including the incentive mechanisms, for purchasing services, having regard to the cost of delivery and service levels.

The Commission should consider the financial and patronage implications and appropriate arrangements for the purchase of services from Metro by the Government having regard to the incorporation of suitable indicators for measuring efficiency and effectiveness to measure the achievement of shareholder expectations including the cost of delivery and service levels.

The Commission should consider the effectiveness of the role and services delivered by Metro in terms of the Government's objectives as represented by the Shareholder Expectations at Attachment A1, and the role of the Community Service Activity Agreement in achieving this outcome. In doing so, the Government requests that, as part of this investigation, the Commission identify, and provide advice on, suitable indicators for measuring both the efficiency and effectiveness with which public transport services are delivered by Metro, and make comparisons using these measures with other relevant operators both within Tasmania and in other parts of Australia.

Any measures developed should be capable of adaptation for incorporation into future Community Service Activity Agreements to maintain a focus on the continuing efficiency and effectiveness of service provision. Performance against these measures could also form part of Metro's reporting obligations to shareholders and, subject to commercial confidentiality needs, could also be reported on in Metro's annual report.

### ***Additional Matters: the Metro Index***

As part of the 2000 review of Metro's pricing policies the Commission developed the Metro Index as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. The index was also adopted by the Department as the basis for adjusting Metro's Community Service Activity payments.

The Commission is to review the adequacy of the Metro index in reflecting Metro's costs and make recommendations as to the need to make modifications to this index in order to effectively reflect changes in Metro's input costs for the next 3 to 5 years.

### ***The Date of Completion***

The Commission is to provide a copy of the Final Report required under section 35 of the Act in respect of the Metro investigation by 1 June 2003.

### ***Requirement for the Commission to Make Recommendations***

The Final Report provided by the Commission under section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in section 4 of the Act), and an appropriate mechanism to adjust such maximum prices, to enable Metro to deliver the defined services during the period of three years after the completion of the Final Report.

### ***Draft Report***

At an appropriate time during the investigation, the Commission is to make available a draft Report.

## **Attachment A1**

### ***Shareholder Expectations***

The Government, through its Shareholder Ministers, expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
  - students travelling to and from school; and
  - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.

## APPENDIX 2 - BACKGROUND TO THE INVESTIGATION

The Commission is an independent statutory body. It was established in 1996 following the commencement of the *Government Prices Oversight Act 1995*. Its role is to investigate the pricing policies of Government Business Enterprises (GBEs), Local Government Business and Agencies that are monopoly providers of goods and services in Tasmania.

The Commission has been set up as part of Tasmania's commitment to the National Competition Policy (NCP) Agreements, which were signed by the Council of Australian Governments (COAG) in April 1995. The purpose of the NCP is to promote competition in the interests of efficiency and economic growth, while dealing with social objectives and concerns about market failure.

As a guiding principle, the NCP anticipates that competition should not be restricted by legislative barriers unless it can be demonstrated that:

- the benefits to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

The NCP Agreements specifically include a requirement that State and Territory Governments consider establishing an independent source of prices oversight advice for their monopoly GBEs. Commonwealth prices oversight is to apply in the absence of an appropriate State body.

The COAG Competition Principles require an independent source of prices oversight advice with the following characteristics:

- it should be independent from the Government Business Enterprise whose prices are being assessed;
- its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined community service obligations imposed on a business enterprise by the Government or legislature of the jurisdiction that owns the enterprise;
- it should apply to all significant Government Business Enterprises that are monopoly, or near monopoly, suppliers of goods or services (or both);
- it should permit submissions by interested persons; and
- its pricing recommendations and the reasons for them should be published.